FISCAL POLICY CENTER
AT VOICES FOR ILLINOIS CHILDREN

SPECIAL REPORT
March 2012

Overview of the Governor's FY 2013 Budget

State Fiscal Crisis Continues to Threaten Vital Programs

Larry Joseph, Manya Khan, and David Lloyd

EXECUTIVE SUMMARY

The Governor's proposed budget for FY 2013 reflects the stark reality that the state fiscal crisis is not over. Despite new revenue from higher income tax rates, as well as significant spending cuts over the past several years, there will be a cumulative General Funds (GF) deficit of $5 billion at the end of FY 2012. Some state agencies would get increased funding in FY 2103, while most others are slated for budget cuts of varying magnitude. Vital programs for children, families, and communities continue to be in jeopardy. This report puts the GF budget in broader context with analysis of spending trends since FY 2009 and policy changes and shifting resources within major agencies.

Illinois State Board of Education (ISBE)

• General State Aid (GSA) for local school districts, which has been reduced by $160 million since FY 2009, would get flat funding in FY 2013. The GSA appropriation would remain at the lowest level since FY 2007.

• The proposed budget includes a $20 million increase for the Early Childhood Block Grant, but funding would still be $34 million below the FY 2009 level. As result of budget cuts and delayed payments to service providers, participation in state-funded preschool programs dropped from more than 95,000 in FY 2009 to an estimated 77,000 in FY 2012.

• Since FY 2009, more than three dozen ISBE programs, with aggregate funding of about $265 million, have been eliminated.

Department of Healthcare and Family Services (DHFS)

• The key issue for the DHFS budget is the gap between medical assistance appropriations and actual program costs. From FY 2009 to FY 2011, enhanced federal Medicaid matching funds enabled the state to pay down a huge backlog of bills and to cover most program costs.

• The FY 2012 budget for medical assistance will leave about $1.8 billion in outstanding liabilities, primarily resulting from continued enrollment growth, expiration of the enhanced federal match, and inadequate appropriations.

• For FY 2013, the Governor has recommended flat General Revenue Fund (GRF) appropriations for medical assistance and has called for reducing program costs by $2.7 billion. This would mean cutting projected liabilities in GRF and related funds by almost 25 percent.

Department of Human Services (DHS)

• Among all state agencies, DHS has been hit hardest by the ongoing fiscal crisis. Since FY 2009, GRF grants for community-based programs have been reduced by more than $400 million.

• Core grants for community mental health services, which were cut 35 percent between FY 2009 and FY 2012, would be cut another 40 percent in FY 2013.

• For the second consecutive year, the income eligibility limit for child care assistance would be lowered, and required family co-payments would be raised.

• The appropriation for TANF income assistance, which was greatly underfunded in FY 2012, would increase, but access to benefits would be further restricted.

• The Emergency and Transitional Housing Program, which provides services to homeless persons and persons at risk of becoming homeless, would be cut by more than 50 percent.

• State support would continue to erode for addiction treatment, prenatal case management, home visiting, after-school programs, delinquency prevention initiatives, and numerous other programs.

Pension Obligations

• The state-funded retirement systems continue to be the dominant source of spending growth — primarily due to the requirements of a long-term plan to compensate for decades of underfunding.

• Combined spending for mandated state contributions and pension-related debt service represents 20 percent of the GF budget in FY 2013, compared with only 9 percent in FY 2009.

Budget Strategies for FY 2013

• A balanced and responsible approach to the ongoing fiscal crisis must include adopting a credible set of revenue estimates, maintaining a transparent and flexible appropriations process, maximizing existing state resources, and seriously addressing the cumulative budget deficit.

• Medicaid restructuring must not jeopardize the state's progress in expanding health insurance coverage and access to primary and preventive care for children.

• Financial, legal, and political complexities make it very difficult to achieve consensus on pension reform. The state must, however, find a responsible and equitable solution to the pension funding crisis — in both the short term and the long term.

Conclusion

• In determining appropriations for the coming fiscal year, members of the General Assembly should take "budgeting for results" seriously and carefully consider the consequences of their policy choices. They should likewise recognize the impact of spending cuts over the past three years, especially for human services programs.

• A responsible state budget should reflect a balanced approach to setting policy priorities and allocating limited resources. Principles of fiscal and social responsibility require shared sacrifice among state agencies and across functions of state government.

• Policymakers should recognize that investing in opportunities for children, resources for vulnerable families, and supportive services for communities can yield long-term benefits for the entire state.

INTRODUCTION

Governor Quinn's proposed budget for FY 2013 reflects the stark reality that the state fiscal crisis is not over. The income tax increase enacted last year improved the state's fiscal situation considerably, but it was not a panacea. Despite the new revenue, as well as significant spending cuts over the past several years, FY 2013 will begin with a $5 billion carryover deficit from previous years. This figure does not include about $2.5 billion in other outstanding liabilities for Medicaid, state employee group insurance, and business income tax refunds.

This special report presents a preliminary analysis of the Governor's proposed budget for the General Funds (GF), which include the General Revenue Fund (GRF), the Common School Fund, and the Education Assistance Fund. As Exhibit 1 shows, some parts of the budget are recommended for increased funding — for example, the State Board of Education, public universities, the Illinois Student Assistance Commission, the Department on Aging, and the Department of Veterans' Affairs. Most other state agencies are slated for budget cuts of varying magnitude, including the Department of Corrections, Department of Children and Family Services, Department of Public Health, and Department of Juvenile Justice. The report puts the FY 2013 budget in broader context by including analysis of spending trends since FY 2009 and examining policy changes and shifting resources within the largest state agencies.

- *Illinois State Board of Education (ISBE)*: In FY 2012, GF appropriations for ISBE were $600 million below the FY 2009 level. The proposed FY 2013 budget would increase ISBE funding by $32 million, including $20 million for the Early Childhood Block Grant. General State Aid would get the same appropriation as in FY 2012 — the lowest level since FY 2007.

- *Department of Healthcare and Family Services (DHFS)*: The key issue in the DHFS budget is the gap between medical assistance appropriations and actual program costs. Enhanced federal Medicaid matching funds enabled the state to pay down a huge backlog of bills and to cover nearly all program costs from FY 2009 to FY 2011. In FY 2012, however, medical assistance was significantly underfunded. DHFS will begin the new fiscal year with about $1.8 billion in outstanding liabilities. The Governor has recommended flat GRF appropriations for medical assistance and has called for reducing program costs by $2.7 billion.

- *Department of Human Services (DHS)*: Aggregate appropriations for DHS do not accurately reflect spending and policy changes within the agency. Over the past three years, GRF grants for community-based programs have been cut by more than $400 million. The proposed FY 2013 budget would increase funding for developmental disability grants, but core grants for community mental health services would be reduced by 40 percent. For the second straight year, the income eligibility limit for child care assistance would be lowered, and required family co-payments would be raised. State support would continue to erode for addiction treatment, prenatal case management, home visiting, youth development, and numerous other programs and services.

- *Pension obligations*: State-funded retirement systems continue to be the dominant source of spending growth — primarily due to the requirements of a long-term plan to compensate for decades of chronic underfunding. In the FY 2012 GF budget, combined spending for mandated contributions and pension-related debt service exceeded $5.7 billion — almost twice the amount in FY 2009. Mandated pension contributions are scheduled to increase by nearly $1 billion in FY 2013.

The report concludes with some recommendations for the General Assembly and the Governor to consider as they make decisions about the FY 2013 budget. We emphasize that a balanced and responsible approach to the ongoing fiscal crisis must include adopting a credible set of revenue estimates, maintaining a transparent and flexible appropriations process, maximizing existing state resources, and seriously addressing the cumulative budget deficit. We also offer some caveats about the complex issues of Medicaid restructuring and pension reform. With respect to Medicaid, policymakers must not jeopardize the state's progress in expanding health insurance coverage and access to primary and preventive care for children. Achieving consensus on pension reform will be very difficult, but the state must find a responsible and equitable solution to the pension funding crisis — in both the short term and the long term.

Exhibit 1: General Funds Budget for Selected State Agencies (in $ millions)

	FY 2009 Adjusted expend.[a]	FY 2012 Revised budget	FY09-FY12	Pct. change	FY 2013 Proposed budget	FY12-FY13	Pct. change
State Board of Education	7,356.3	6,750.4	-605.9	-8.2%	6,782.2	31.8	0.5%
State universities	1,393.8	1,293.9	-99.9	-7.2%	1,312.2	18.3	1.4%
Illinois Student Assistance Commission	426.3	406.9	-19.4	-4.6%	456.9	50.0	12.3%
Illinois Community College Board	346.4	361.1	14.7	4.2%	361.1	0.0	0.0%
DHFS medical assistance[b]	6,852.7	6,626.0	-226.7	-3.3%	6,626.0	0.0	0.0%
Department of Human Services[c]	4,099.2	3,387.1	-712.1	-17.4%	3,384.9	-2.2	-0.1%
Child care assistance	640.4	281.9	-358.5	-56.0%	265.2	-16.7	-5.9%
Home services	497.4	573.5	76.1	15.3%	329.3	-244.2	-42.6%
All other	2,961.4	2,531.7	-429.7	-14.5%	2,790.4	258.7	10.2%
Department of Children & Family Services	890.7	812.5	-78.2	-8.8%	767.7	-44.8	-5.5%
Department on Aging	537.9	737.4	199.5	37.1%	814.8	77.4	10.5%
Department of Public Health	146.2	134.8	-11.4	-7.8%	125.7	-9.1	-6.8%
Department of Veterans' Affairs	54.0	64.1	10.1	18.7%	69.0	4.9	7.6%
Department of Corrections	1,153.9	1,222.4	68.5	5.9%	1,110.5	-111.9	-9.2%
Illinois State Police[d]	182.9	270.1	87.2	47.7%	250.5	-19.6	-7.3%
Department of Juvenile Justice	109.9	123.9	14.0	12.7%	112.2	-11.7	-9.4%

[a] Includes FY09 Budget Relief Fund; excludes pension contributions.

[b] DHFS = Department of Healthcare and Family Services. Excludes operations and employee group insurance. FY09 excludes supplemental appropriation to reduce Medicaid backlog from previous years.

[c] In FY12 budget, more than $400 million in funding for child care is shifted outside the General Funds. In FY13 budget, $240 million for home services is shifted outside the General Funds.

[d] Increase after FY09 reflects shift of appropriations from Road Fund to General Revenue Fund.

Sources: Illinois Office of the Comptroller and Governor's Office of Management and Budget.

State Board of Education

Almost two-thirds of the State Board of Education budget consists of General State Aid (GSA) to local school districts. GSA is designed to provide a minimal level of funding per pupil from state and local resources, as well as additional funding for school districts with large concentrations of low-income students. The second biggest part of the ISBE budget is mandated categorical grants, primarily for special education and transportation. Other targeted grants provide funding for specific populations and purposes to school districts throughout the state. Between FY 2009 and FY 2012, GF appropriations for ISBE declined by more than $600 million (see Exhibit 2).

Exhibit 2: State Board of Education, General Funds Budget (in $ millions)

	FY 2009 Actual expend.	FY 2012 Revised budget	FY09-FY12	Pct. change	FY 2013 Proposed budget	FY12-FY13	Pct. change
General State Aid	4,607.7	4,448.1	-159.6	-3.5%	4,448.1	0.0	0.0%
Special education (mandated categoricals)	1,404.7	1,536.5	131.8	9.4%	1,536.5	0.0	0.0%
Early Childhood Education	378.7	325.1	-53.6	-14.1%	345.1	20.0	6.2%
Transportation (regular/vocational)	329.2	205.8	-123.4	-37.5%	205.8	0.0	0.0%
Bilingual education	75.7	63.4	-12.3	-16.2%	66.4	3.0	4.7%
Career and technical education	38.6	38.6	0.0	0.0%	38.6	0.0	0.0%
Student Assessments	25.2	24.0	-1.2	-4.9%	27.4	3.4	14.2%
Truant Alternative & Optional Education	19.9	14.1	-5.9	-29.5%	14.1	0.0	0.0%
Regional Safe Schools	18.5	9.3	-9.2	-49.6%	9.3	0.0	0.0%
Children's Mental Health Partnership	3.0	1.6	-1.3	-45.4%	1.6	0.0	0.0%
All other	455.1	83.9	-371.2	-81.6%	89.3	5.4	6.5%
Total General Funds	7,356.3	6,750.4	-605.9	-8.2%	6,782.2	31.8	0.5%

Sources: Illinois Office of the Comptroller and Governor's Office of Management and Budget.

General State Aid

In FY 2009 and FY 2010, General State Aid was bolstered by federal funding under the American Recovery and Reinvestment Act (ARRA) — almost $2 billion over two years. In FY 2011, ISBE received an additional $415 million from the federal Education Jobs Fund, which was kept separate from the GF budget and was used to increase GSA by 9 percent for all school districts except for the most affluent districts that receive flat per-pupil grants.

The FY 2012 budget reduced GSA by $152 million — not including the loss of $415 million in federal funds. The combined reduction in state and federal funds ($567 million) has had the greatest impact on school districts that rely most on state funding — districts with the lowest amounts of property wealth per pupil and those with the highest concentrations of low-income students. The State Board requested a $201 million increase in GSA for FY 2013, but the Governor's budget would keep the appropriation at $4.4 billion, the lowest since FY 2007. According to ISBE, the effective foundation level for GSA would be $5,823 per pupil, compared with the current statutory level of $6,119. Last year, the Education Funding Advisory Board recommended a foundation level of $8,360.

Special Education

Special education programs serve students with specific learning disabilities, speech and language impairments, mental impairments, and other disabilities. Mandated categorical grants for special education were increased 9 percent in FY 2010 and have remained close to that level. The FY 2013 budget includes some changes among line items, but aggregate funding would be flat.

Early Childhood Education

The Early Childhood Block Grant (ECBG) funds preschool programs operated by local school districts and qualified community agencies, as well as developmental services for infants and toddlers. The proposed FY 2013 budget includes a $20 million increase for ECBG, but funding would still be $34 million below the FY 2009 level. As result of budget cuts and delayed payments to service providers, participation in state-funded preschool programs dropped from more than 95,000 in FY 2009 to an estimated 77,000 in FY 2012.

Bilingual Education

The State Board had recommended a $7 million increase for bilingual education in FY2013 to help school districts meet the needs of the growing population of English-language learners, as well as comply with new mandates to provide bilingual preschool programs. The Governor's budget proposes a $3 million increase, which would still be $9.3 million lower than the FY 2009 level.

Other Programs

Many other programs have been hit by major budget cuts over the past several years. For example, the ISBE component of the Children's Mental Health Partnership (CMHP) provides funding to participating school districts to improve social-emotional learning and related student support services. Between FY 2009 and FY 2011, CMHP funding was reduced from $3 million to $1.62 million. The State Board recommended that the FY 2013 appropriation be increased to $2 million, but the Governor's budget would provide flat funding. Since FY 2009, more than three dozen other programs, with aggregate funding of about $265 million, have been eliminated. These terminated programs included the Reading Improvement Block Grant, the Summer Bridges program for struggling students in low-performing schools, and teacher and administrator mentoring.

Higher Education

GF support for nine public universities was cut by $100 million between FY 2010 and FY 2012. The proposed FY 2013 budget would provide an increase of $18 million, but appropriations for state universities would still be about $82 million below the FY 2009 level.

The Illinois Student Assistance Commission offers student financial aid to state residents. Its largest program is the Monetary Award Program (MAP), which provides need-based grants to undergraduates at both two-year and four-year institutions. The proposed FY 2013 budget would increase MAP funding by $50 million.

The Illinois Community College Board (ICCB) allocates state funds to 39 community college districts, which are also financed by local property tax revenue. GF support for ICCB has fluctuated over the past several years, although funding in FY 2012 was 4 percent higher than in FY 2009. The Governor's proposed budget would provide level funding in FY 2013.

Department of Healthcare and Family Services

The Department of Healthcare and Family Services has principal responsibility for the state's medical assistance programs. About 95 percent of total medical assistance spending is funded through Medicaid, with the federal government typically covering half of the costs. Most of the remainder is financed through the Children's Health Insurance Program (CHIP), which has a higher federal matching rate of 65 percent. A small portion of medical assistance spending is funded entirely by the state. There is also a substantial amount of Medicaid-covered spending outside DHFS — mostly in the Department of Human Services and the Department on Aging.

Children represent more than 60 percent of DHFS medical assistance enrollment but only 30 percent of expenditures. By contrast, adults with disabilities and the elderly account for about 15 percent of enrollment but nearly half of expenditures (see Exhibit 3). Between FY 2008 and FY 2011, total medical assistance enrollment grew at an average annual rate of 5.1 percent.

Exhibit 3: Medical Assistance Enrollment and Expenditures by Major Eligibility Group, FY 2010

	Enrollment	Spending[a]
Children	61.7%	30.3%
Non-disabled adults	22.7%	21.4%
Disabled (non-elderly adults)	9.6%	29.4%
Elderly	6.0%	18.9%
Total	100.0%	100.0%

[a] Claims-based expenditures from General Revenue Fund and other related funds.

Source: Illinois Department of Healthcare and Family Services.

As part of ARRA, Congress instituted a temporary increase in federal matching funds for Medicaid. For Illinois, the federal share of Medicaid costs was raised from 50 percent to more than 60 percent, retroactive to October 2008. The enhanced match was originally scheduled to expire in December 2010 but was extended and phased out through June 2011. The additional federal revenue for Illinois totaled about $1.2 billion per year over three years.

Mismatch Between Appropriations and Program Costs

Medicaid is a federal entitlement program, which means that eligible recipients are entitled to receive covered services. Program costs are determined by enrollment, service utilization, and reimbursement rates for providers. If Medicaid appropriations in a given year are less than actual expenses, then outstanding liabilities will remain. Illinois has had a chronic problem of inadequate appropriations for medical assistance, resulting in deferred liabilities and long delays in payments to service providers. At the end of FY 2008, the Medicaid backlog exceeded $2 billion.[1]

In order to qualify for enhanced federal matching funds under ARRA, all states had to assure prompt payments to hospitals, nursing homes, and medical practitioners — in most cases, within

[1] Under Section 25 of the State Finance Act, payments to healthcare providers for services in a given fiscal year can be deferred to the subsequent year. There is no limit on the dollar amount of these liabilities.

30 days. This requirement compelled Illinois to reduce its backlog of outstanding Medicaid liabilities. Consequently, the final DHFS budget for FY 2009 included a $1.5 billion supplemental appropriation to pay down the backlog from previous years. The higher federal match enabled the state to keep up with most program liabilities for several years. In addition, the extra federal revenue gave the state greater flexibility in shifting program expenses to non-GRF budget lines.

Funding Gaps for FY 2012 and FY 2013

The Governor's FY 2012 GRF recommendation for DHFS medical assistance was $614 million higher than the FY 2011 appropriation. The proposed funding level was based on projected enrollment growth and declining resources for non-GRF budget lines (including the loss of enhanced federal matching funds). The Governor also proposed lower reimbursement rates for most health care providers. The General Assembly's GRF appropriations were $537 million below the Governor's proposal, even though the cuts in provider rates were not approved. The Governor subsequently used his veto authority to reduce the appropriation by another $276 million.

Exhibit 4: Department of Healthcare and Family Services, Estimated Medical Assistance Liabilities and Expenditures, General Revenue Fund and Related Funds (in $ millions)

	FY 2012	FY 2013	Change
Estimated liabilities			
Hospital services	3,297.4	3,287.7	-9.7
Prescription drugs	2,031.4	2,307.8	276.4
Long-term care	1,909.7	2,059.2	149.5
Physicians	1,086.9	1,010.2	-76.7
Managed care	611.5	844.8	233.3
Medicare premiums	416.7	458.2	41.5
Community health centers	344.9	377.2	32.3
Dentists	331.5	313.3	-18.2
All other	840.4	801.6	-38.8
Total	**10,870.4**	**11,460.0**	**589.6**
Estimated expenditures (including lapse period)			
General Revenue Fund	7,095.3	6,758.2	-337.1
Other related funds[a]	2,293.8	1,765.9	-527.9
Total GRF and related funds	**9,389.1**	**8,524.1**	**-865.0**
Outstanding liabilities			
Current fiscal year	**1,481.3**	**2,935.9**	**1,454.6**
Previous fiscal year	290.9	1,772.2	1,481.3
Total	**1,772.2**	**4,708.1**	**2,935.9**

[a] Includes Healthcare Provider Relief Fund, Long Term Care Provider Fund, Drug Rebate Fund, Tobacco Settlement Recovery Fund, and FY12 Hospital Relief Fund.

Source: Illinois Department of Healthcare and Family Services, "Five-Year Medical Assistance Budget Outlook" (January 2012).

Last December, the legislature authorized a GRF transfer of $160 million to the Healthcare Provider Relief Fund to replace revenue from the Tobacco Settlement Recovery Fund.[2] A second transfer of $140 million to the FY12 Hospital Relief Fund — contingent on legislative appropriation — was intended to restore a portion of the $276 million vetoed by the Governor. Both transfers are to be used to leverage federal matching funds.

The revised FY 2012 budget will leave almost $1.8 billion in outstanding medical assistance liabilities. Moreover, program costs are expected to increase by $590 million in FY 2013 (see Exhibit 4). The Governor's proposed budget, however, would provide a lump-sum GRF appropriation with funding kept at the FY 2012 level. The extra transfers to non-GRF budget lines would not be repeated. According to DHFS, avoiding massive additional growth in outstanding liabilities will require enacting major policy changes to reduce program costs by *$2.7 billion*.

Department of Human Services

Among all state agencies, the Department of Human Services has been hit hardest by the ongoing fiscal crisis. Aggregate GRF appropriations for DHS can be misleading because they obscure policy changes and shifting resources within the agency. Two of the largest DHS grant programs — home services and child care assistance — have actually grown substantially over the past decade. Other community-based programs, however, were hit by more than $400 million in cuts between FY 2009 and FY 2012. Even deeper reductions for FY 2012 were avoided last December, when the General Assembly approved a supplemental appropriations bill that restored $182 million for DHS, including $70 million to avert closure of state-operated facilities, $30 million for other operations, and $82 million for grant programs.

The proposed FY 2013 GRF budget for DHS is close to the same level as in FY 2012, but aggregate recommended appropriations obscure major changes in spending priorities, as well as shifts in funding from GRF to non-GRF budget lines. The budget includes plans to close Jacksonville Development Center and Tinley Park Mental Health Center, as well as to begin closure of two other state-operated facilities. These changes are part of the "rebalancing" initiative, which is designed to shift the focus of long-term care from institutional to community-based services. But the budgetary effects of rebalancing are very different for developmental disabilities and mental health. In the FY 2013 budget, funding for state developmental centers would be cut by $15.2 million, but this would be more than offset by increased funding for community-based services. By contrast, funding for state-operated mental health facilities would be cut by $21.8 million, and funding for community mental health services would be cut by much more than that amount (see Exhibit 5).

In the new Division of Family and Community Services, the income eligibility limit for child care assistance would be lowered, and required family co-payments would again be raised. The FY 2013 appropriation for TANF income assistance, which was greatly underfunded in FY 2012, would increase in belated response to growing caseloads. However, access to benefits would be further restricted. The Emergency and Transitional Housing Program would be cut by more than 50 percent. Many other GRF grant programs would again be hit by budget cuts (see Exhibit 6).

[2] For more than 10 years, Illinois has received annual payments from the master settlement agreement with major tobacco companies, using most of the revenue to leverage federal Medicaid matching funds. In FY 2011, the state issued $1.25 billion in bonds that were backed by the part of the revenue stream from the tobacco settlement. As a result, there is less revenue available for Medicaid.

Home Services

The Home Services Program is designed to prevent premature or unnecessary institutionalization of individuals with physical disabilities and other impairments such as traumatic brain injury and HIV/AIDS. The program is funded primarily through Medicaid home and community-based services waivers. Between FY 2006 and FY 2009, GRF spending for home services grew 33 percent. In FY 2012, funding was 15 percent above the FY 2009 level. The proposed FY 2013 budget would shift $240 million from GRF to a new Home Services Medicaid Trust Fund, with overall funding slightly lower than in FY 2012. DHS plans to tighten eligibility determination in various ways, which could reduce or eliminate services for more than 15,000 people with disabilities.

Exhibit 5: Department of Human Services, Selected Grant Programs in Home Services, Developmental Disabilities, Mental Health, and Addiction Treatment, General Revenue Fund (in $ millions)

	FY 2009 Adjusted expend.[a]	FY 2012 Revised budget	FY09-FY12	Pct. change	FY 2013 Proposed budget	FY12-FY13	Pct. change
Home Services	497.4	573.5	76.1	15.3%	569.3	-4.2	-0.7%
General Revenue Fund	497.4	573.5	76.1	15.3%	329.3	-244.2	-42.6%
Home Services Medicaid Trust Fund	-------	-------	-------	-------	240.0	240.0	-------
Development Disabilities							
Long-term care & community services	999.8	779.8	-220.1	-22.0%	975.4	195.6	25.1%
Community transitions	7.6	10.9	3.3	43.7%	20.8	9.9	90.2%
Special services	8.7	8.1	-0.6	-6.9%	8.1	0.0	0.0%
Mental Health							
Community service grants	221.0	144.2	-76.8	-34.7%	85.8	-58.4	-40.5%
Community transitions	23.3	22.7	-0.6	-2.5%	36.3	13.6	60.1%
Community transitions & rebalancing							
General Revenue Fund	-------	-------	-------	-------	21.0	21.0	-------
DHS Community Services Fund	-------	20.0	-------	-------	20.0	0.0	0.0%
Children and adolescent grants	35.8	28.7	-7.1	-19.8%	28.7	0.0	0.0%
Individual care grants	27.0	23.3	-3.7	-13.6%	23.3	0.0	0.0%
Children's Mental Health Partnership	2.9	0.0	-2.9	-100.0%	0.0	0.0	-------
Addiction Treatment	163.3	129.3	-34.0	-20.8%	124.3	-5.0	-3.9%

[a] Includes FY09 Budget Relief Fund.

Sources: Illinois Office of the Comptroller and Governor's Office of Management and Budget.

Developmental Disabilities

Developmental disability services represent the largest part of the DHS budget — over $1 billion from GRF in FY 2012. Medicaid covers more than 80 percent of appropriations from all funds. GRF grants for developmental disabilities include funding for private intermediate care facilities, Medicaid home and community-based waiver services, and a range of non-Medicaid programs.

Between FY 2009 and FY 2012, the main GRF budget line for developmental disability grants was reduced by $220 million (22%). The proposed FY 2013 budget would increase funding by $196 million. Most of the increase ($163 million) would be used to maintain the payment cycle for service providers. Another $60 million would be used to support the transition of individuals out of state-operated developmental centers and to fund community-based services required under a federal consent decree (*Ligas v. Hamos*). Some of the increases would be offset by reductions in funding for non-Medicaid services and by shifting some expenses to non-GRF budget lines.

Mental Health

On the mental health side, the proposed FY 2013 budget likewise includes new GRF funding (about $36 million) to support the transition of individuals out of state-operated facilities and comply with a federal consent decree (*Williams v. Quinn*). At the same time, however, core grants for community mental services would be reduced by $58 million. These grants have already been cut by $77 million over the past three years.[3] The FY 2013 funding level would be 60 percent below FY 2009. According to DHS, programs at risk for reductions or elimination include non-Medicaid fee-for-service, supported or supervised residential services, crisis services, juvenile justice programs, and special projects for children's mental health.

The FY 2013 budget would maintain current GRF support for two programs specifically designated for children — children and adolescent grants and individual care grants. Combined funding for these programs has been cut by 17 percent since FY 2009. In FY 2012, the GRF appropriation was eliminated for the DHS component of the Children's Mental Health Partnership, which works on a variety of prevention, early intervention, and treatment initiatives.

Addiction Treatment

Between FY 2009 and FY 2011, GRF grants for alcoholism and substance abuse treatment were subject to deep budget cuts. In the enacted FY 2012 budget, support for addiction treatment programs was slated to be cut by another 22 percent. Funding was restored by supplemental appropriations, but it remained 21 percent below the FY 2009 level. In FY 2013, GRF support for addiction treatment would be 4 percent lower than in FY 2012 and 24 percent below the FY 2009 level.

Family and Community Services

Child care: The Child Care Assistance Program is funded through a variety of state and federal sources. Despite higher overall funding in FY 2012, DHS lowered the income eligibility limit from 200 percent to 185 percent of the federal poverty level. The proposed FY 2013 budget would provide about $16 million less funding from all appropriated funds. Spending would increase to raise provider rates and maintain the payment cycle, but this would be offset by various program cuts. Income eligibility for new applicants would be reduced to 150 percent of poverty. (For a single parent with two children in 2012, the poverty line is about $19,000.) In addition, required family co-payments for child care services, which increased substantially in FY 2012, will increase again in FY 2013. Other planned policy changes include reducing investments in child care quality initiatives and implementing up-front registration for providers before they serve children.

---

[3] Between FY 2009 and FY 2012, percentage cuts for mental health funding in Illinois were the fourth largest among all states, exceeded only by South Carolina, Alabama, and Alaska. National Alliance on Mental Illness, "State Mental Health Cuts: The Continuing Crisis" (November 2011).

TANF income assistance: The recession reversed the long downward trend in TANF caseloads in Illinois. Spending for TANF income assistance from GRF and other funds increased by more than half ($49.6 million) from FY 2009 to FY 2011. In the FY 2012 budget, however, appropriations were cut by about one-third ($45.9 million). The Governor's proposed budget includes a $115 million increase due to caseload growth in FY 2012 and projected growth in FY 2013. Nonetheless, DHS plans to institute a 30-day waiting period for TANF benefits and reduce the lifetime limit for receiving income assistance from 60 months to 36 months.

Exhibit 6: Department of Human Services, Selected Grant Programs in Family and Community Services, General Revenue Fund (in $ millions)

	FY 2009 Adjusted expend.[a]	FY 2012 Enacted budget	FY09-FY12	Pct. change	FY 2013 Proposed budget	FY12-FY13	Pct. change
Child care assistance	771.0	896.3	125.4	16.3%	880.7	-15.7	-1.7%
General Revenue Fund	640.4	281.9	-358.6	-56.0%	265.2	-16.6	-5.9%
DHS Special Purposes Trust Fund	130.6	189.5	58.9	45.2%	190.5	1.0	0.5%
Employment and Training Fund	0.0	425.0	425.0	-------	425.0	0.0	0.0%
Temporary Assistance for Needy Families	90.0	93.7	3.7	4.1%	208.6	114.9	122.6%
State Transitional Assistance	11.8	0.0	-11.8	-100.0%	0.0	0.0	-------
State Family and Child Assistance	1.6	0.0	-1.6	-100.0%	0.0	0.0	-------
Prenatal case management[b]	48.3	42.0	-6.3	-13.0%	40.1	-1.9	-4.6%
Early Intervention	79.1	75.9	-3.1	-4.0%	75.9	0.0	0.0%
Home-visiting programs							
Healthy Families Illinois	11.1	10.0	-1.1	-9.9%	8.7	-1.3	-12.8%
Parents Too Soon - GRF	7.7	6.9	-0.8	-10.9%	5.9	-1.0	-14.6%
Parents Too Soon - non-GRF	3.6	3.7	0.1	2.4%	3.8	0.1	3.2%
Federal grant for home visiting	0.0	0.0	0.0	-------	10.5	10.5	-------
Youth development							
Delinquency prevention programs[c]	30.3	19.9	-10.3	-34.1%	18.3	-1.6	-8.2%
After School Youth Support (Teen REACH)	18.1	8.2	-9.8	-54.5%	6.6	-1.6	-20.0%
Homeless youth services	4.5	3.2	-1.2	-27.7%	3.2	0.0	0.0%
Teen Parent Services	6.7	1.4	-5.3	-78.8%	1.4	0.0	0.0%
Addiction prevention programs	7.4	2.6	-4.7	-64.3%	0.0	-2.6	-100.0%
Domestic violence shelters and services	21.6	18.8	-2.8	-13.0%	16.5	-2.3	-12.3%
Sexual assault services and prevention	5.8	4.7	-1.1	-19.7%	4.2	-0.5	-10.0%
Emergency and transitional housing	9.0	9.1	0.1	1.1%	4.4	-4.7	-51.7%
Immigrant and refugee services[c]	13.1	8.3	-4.8	-36.6%	8.3	0.0	0.0%

[a] Includes FY09 Budget Relief Fund.

[b] Includes Family Case Management and Targeted Intensive Prenatal Case Management.

[c] Includes multiple line items.

Sources: Illinois Office of the Comptroller and Governor's Office of Management and Budget.

Prenatal case management: Family Case Management and Targeted Intensive Prenatal Case Management are designed to reduce the incidence of infant mortality, premature births, and low birthweight infants. Line items for the two programs have been combined in the FY 2013 budget, and aggregate funding would be 5 percent below FY 2012 and 17 percent below FY 2009.

Home visiting: Healthy Families Illinois and Parents Too Soon are home visiting programs designed to help new and expectant parents provide a nurturing environment for young children. In FY 2012, GRF funding for the two programs was 10 percent lower than FY 2009 levels. The FY 2013 budget would cut funding by another 13 percent. Illinois is eligible to receive about $50 million over five years in new federal grants for home visiting. These new investments will support evidence-based initiatives with targeted outcomes that include improved maternal and child health, prevention of child abuse and neglect, enhanced school readiness, and stronger parenting skills. The state must meet certain maintenance-of-effort requirements, so the proposed budget cuts would jeopardize these new federal resources.

Early Intervention: The Early Intervention program provides a broad set of services to families with children under age 3 who have diagnosed disabilities or are experiencing delays in cognitive, physical, social-emotional, or other areas of development. The program receives federal funding through both Medicaid and the Individuals with Disabilities Education Act. Proposed GRF funding would be the same as in FY 2012 but 4 percent lower than in FY 2009.

After-school programs: The Teen REACH after-school program is designed to expand the range of opportunities for youth to achieve positive growth and development, improve their expectations for future success, and avoid or reduce harmful, risk-taking behaviors. State funding for Teen REACH has been cut by 54 percent since FY 2009. The proposed FY 2013 budget would reduce its appropriation by another 20 percent.

Delinquency prevention: Combined FY 2013 funding for delinquency prevention programs — Comprehensive Community-Based Youth Services, Community Youth Services, and Redeploy Illinois — would be 8 percent lower than FY 2012 and 39 percent below the FY 2009 level.

Addiction prevention: In FY 2012, GRF appropriations for addiction prevention programs, which target children ages 10 to 17, were 64 percent below FY 2009 levels. The FY 2013 budget would eliminate GRF funding entirely, although support from federal grants would remain.

Other programs: The Emergency and Transitional Housing Program, which provides comprehensive shelter services to homeless persons and persons at risk of becoming homeless, would be cut by 52 percent. Other community-based programs slated for funding cuts in FY 2013 include services for victims of domestic violence and support for victims of sexual assault.

Department of Children and Family Services

The largest part of the budget for the Department of Children and Family Services (DCFS) involves GRF appropriations, but more than one-third of the total consists of the Children's Services Fund (CSF). Although CSF is classified as a special state fund, most of its revenue comes from federal grants, primarily Title IV-E matching dollars for foster care and adoption assistance. For the most part, the state receives Title IV-E revenue on the same basis as Medicaid matching funds.

Actual expenditures in DCFS are often lower than appropriations, partly because of year-to-year changes in substitute care caseloads. Between FY 2009 and FY 2012, appropriations from all funds were reduced by $78 million. The proposed FY 2013 budget would cut GRF support by another $45 million, which would be partly offset by an additional $9.5 million in CSF (see Exhibit 7). At the program level, the largest reductions would come from foster care, institutions and group homes, and adoption and guardianship services.

DCFS operates under various consent decrees arising from federal class action lawsuits — most notably, *B.H. v. McDonald*, which requires that the state maintain an acceptable level of child protection and foster care services. Recent evidence suggests that caseloads for DCFS protective services workers, who investigate reports of child abuse and neglect, have been exceeding the limits set by the *B.H.* decree. The higher monthly caseloads may be related to child protection positions that were authorized but not filled because of the state's severe budget problems.[4]

Exhibit 7: Department of Children and Family Services, Appropriations and Expenditures (in $ millions)

	FY 2009[a]	FY 2010	FY 2011	FY09-FY11	FY 2012 Revised budget	FY11-FY12	FY 2013 Proposed budget	FY12-FY13
Appropriations								
General Revenue Fund	898.2	868.6	846.5	-51.7	812.5	-34.0	767.7	-44.8
DCFS Children's Services Fund	431.1	417.4	418.8	-12.3	438.8	20.0	448.3	9.5
Other funds	9.0	11.4	9.0	0.0	8.9	-0.1	8.9	0.0
Total	1,338.3	1,297.4	1,274.4	-64.0	1,260.2	-14.2	1,224.9	-35.3
Expenditures								
General Revenue Fund	890.7	847.2	839.7	-51.0	-------	-----	-------	-----
DCFS Children's Services Fund	349.8	379.8	367.6	17.8	-------	-----	-------	-----
Other funds	4.8	4.1	5.2	0.4	-------	-----	-------	-----
Total	1,245.3	1,231.2	1,212.5	-32.8	-------	-----	-------	-----

[a] GRF includes FY09 Budget Relief Fund, excludes pension contributions.

Sources: Illinois Office of the Comptroller, Governor's Office of Management and Budget, Illinois Department of Children and Family Services.

Other State Agencies

In the Department on Aging, overall GRF funding increased by nearly $200 million (37%) between FY 2009 and FY 2012. The Governor's FY 2013 budget includes an additional $77 million (10%). More than 90 percent of the agency's GRF budget request involves the Community Care Program, which is largely funded through Medicaid and provides services for seniors who might otherwise need nursing home care. Since FY 2009, program participation has grown at an average annual rate of more than 10 percent. The recommended funding increase for FY 2013 reflects continued enrollment growth as well as compliance with yet another consent decree (*Colbert v. Quinn*).

[4] "High DCFS Caseloads Raise Red Flags," *Chicago Tribune*, March 4, 2012.

Since FY 2009, GRF resources for the Department of Public Health have been cut by more than $11 million (8%). The proposed FY 2013 budget would reduce appropriations by another $9 million (7%). Most of the cuts would come from HIV/AIDS programs and from breast and cervical cancer screening and related activities.

The GRF budget for the Department of Corrections has increased by $68.5 million (6%) over the past three years. The Governor's proposed budget for FY 2013 would reduce appropriations by $112 million (9%). About half of the reduction reflects plans to close Dwight Correctional Center (Livingston County) and Tamms Correctional Center (Alexander County), as well as six adult transition centers.

Funding for the Department of Juvenile Justice (DJJ) rose by $14 million (13%) between FY 2009 and FY 2012. The FY 2013 budget would cut appropriations by about $12 million (9%). DJJ plans to close Illinois Youth Centers in Joliet (Will County) and Murphysboro (Jackson County). Agency funding for aftercare services would increase from $1.5 million to $9.1 million.

State Employee Group Insurance

The State Employees' Group Insurance Program provides medical, dental, vision, and life insurance for employees, retirees, and their dependents. Medical coverage accounts for more than 90 percent of total costs. The program is administered by both DHFS and the Department of Central Management Services and is funded from a variety of sources. The largest funding source is the state's GRF, which covers about 60 percent of the total. Member contributions cover about 15 percent of expenses. Between FY 2001 and FY 2011, annual cost per participant more than doubled — mostly because of medical inflation.[5]

The group insurance program has been significantly underfunded during the past five years, especially in FY 2011 (see Exhibit 8). Although FY 2012 appropriations provided full funding, the program is still carrying about $1.1 billion in outstanding liabilities. The proposed FY 2013 budget would cut GRF support by $264 million, reflecting plans to reduce program costs. Available budget documents provide few specifics, however.

Exhibit 8: General Funds Expenditures for State Employee Group Insurance (in $ millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Expenditures	1,083	1,025	885	1,436	1,171
Change from previous year	28	-58	-140	551	-264

Source: Governor's Office of Management and Budget.

[5] See Commission on Government Forecasting and Accountability, "Liabilities of the State Employees' Group Health Insurance Program, FY 2012" (March 2011).

Pension Obligations

The largest of the five state-funded pension systems is the Teachers' Retirement System, which represents more than half of state contributions for the current fiscal year.[6] The State Universities Retirement System and the State Employees Retirement System each accounts for about one-fifth of the total from all appropriated funds. The systems for judges and members of the General Assembly are much smaller (see Exhibit 9).

Exhibit 9: Estimated Contributions to State-Funded Retirement Systems from General Funds and State Pension Fund (in $ millions)

	FY 2012	Pct. distr.	FY 2013	Pct. distr.
Teachers' Retirement System	2,406.3	55.1%	2,703.5	51.5%
State Universities Retirement System				
General Funds	750.5	17.2%	1,242.8	23.7%
State Pension Fund[a]	230.0	5.3%	160.0	3.0%
State Employees Retirement System	904.2	20.7%	1,041.5	19.8%
Judges' Retirement System	63.6	1.5%	88.2	1.7%
General Assembly Retirement System	10.5	0.2%	14.2	0.3%
Total - all appropriated funds	4,365.1	100.0%	5,250.2	100.0%

[a] Revenue from Unclaimed Property Trust Fund.

Source: Governor's Office of Management and Budget.

Decades of chronic underfunding of the five retirement systems, especially between 1981 and 1995, have contributed significantly to the state's structural deficit and the current fiscal crisis. In 1995, the state enacted a 50-year plan to achieve adequate funding of pension obligations. The plan included a 15-year ramp-up period, after which the state's annual contributions would remain at a level percentage of payroll. Meeting the funding schedule during the ramp-up period proved to be very difficult, however. In 2003, the state issued $10 billion in pension obligation bonds, part of which was used to cover contributions for FY 2003 and FY 2004. Pension payments were lower than scheduled in both FY 2006 and FY 2007. As a result, the last several years of the "pension ramp," which coincided with the recession, became much steeper.

Mandated state contributions increased by 37 percent in FY 2009 and 48 percent in FY 2010. In FY 2010 and FY 2011, the state issued pension obligation notes to cover the GF share of employer contributions. In the FY 2012 GF budget, combined spending for mandated contributions and pension-related debt service exceeded $5.7 billion — almost twice the amount in FY 2009 (see Exhibit 10). Pension costs represented 17 percent of the GF budget in FY 2012, compared with only 9 percent in FY 2009.

[6] The Teachers' Retirement System is separate from the Chicago Teachers' Pension Fund, which receives only a small amount of state support. The state's contributions for Chicago declined from $74.8 million in FY 2009 to $10.4 million in FY 2012.

Exhibit 10: General Funds Expenditures for State Retirement Systems (in $ millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY09-FY12	Pct. change	FY 2013	FY12-FY13	Pct. change
Mandated pension contributions[a]	2,486	3,466	3,680	4,135	1,649	66%	5,090	955	23%
Pension obligation debt service	466	564	1,667	1,605	1,139	244%	1,552	-53	-3%
Total	2,952	4,030	5,347	5,740	2,788	94%	6,642	902	16%

[a] Covered by borrowing in FY 2010 and FY 2011.

Source: Governor's Office of Management and Budget.

State pension contributions for FY 2013 will exceed $5 billion. Only about one-third of the total reflects the "normal cost" of covering current employees, while the remainder represents interest on unfunded liabilities. The main reasons for the sharp increase in FY 2013 ($955 million) are changes in actuarial assumptions by the various retirement systems and unintended consequences of pension reform legislation enacted in 2010. This increase is almost twice the projected growth in GF revenue from state sources. Total pension-related spending — including mandated contributions and pension obligation debt service — accounts for *20 percent* of the proposed GF budget for FY 2013.

Budget Strategies for FY 2013

Revenue Estimates and Resource Allocation

Last year, the House of Representatives and the Senate adopted competing GF revenue estimates to establish limits on aggregate appropriations. The General Assembly has not adhered to the budget process outlined in the statute that gives the Commission on Government Forecasting and Accountability (CGFA) responsibility for issuing a set of revenue estimates for the coming fiscal year. The statute specifies that the House and Senate should adopt or modify the CGFA estimates by joint resolution: "The joint resolution shall constitute the General Assembly's estimate, under paragraph (b) of Section 2 of Article VIII of the Constitution, of the funds estimated to be available during the next fiscal year" (25 ILCS 155/4).

On March 1, the House adopted a revenue estimate for FY 2013 (House Joint Resolution 68) by a vote of 95 to 11. Six days later, the Senate concurred with the only one dissenting vote. The approved figure is $271 million lower than CGFA's estimate and $221 million lower than the estimate from the Governor's Office of Management and Budget. Adopting a common revenue estimate is a step forward for the General Assembly. However, using an artificially low revenue estimate to gain bipartisan support or to arrive at a lower spending ceiling does not foster credibility or public confidence. The state should consider establishing a non-politicized process for arriving at a consensus revenue forecast — much earlier in the budget cycle — for both the executive and legislative branches. More than 20 other states use a consensus process.

The next step for the House and Senate is allocation of available revenue. Each chamber should have a transparent and responsible appropriations process. Neither chamber should allocate resources according to fixed, pre-determined shares for broad categories of the budget. Last year, for example, House Resolution 156 allocated designated shares of available revenue to five appropriations committees: elementary and secondary education, higher education, human services, public safety, and general services. Such an approach creates artificial silos, precludes adjustments across major budget priorities, and restricts the scope of overall budget deliberations.

State Resources Outside the General Funds

Before imposing additional cuts on vital services for children, families, and communities, policymakers should maximize existing state resources. Outside the General Funds, there are hundreds of other state funds that are financed through dedicated taxes and fees as well as transfers from GRF. These funds often serve legitimate purposes, but they are seldom scrutinized and essentially operate on automatic pilot. In many instances, revenues for such funds have been largely unaffected by the recession. Some special state funds carry large unexpended balances.

Statutory transfers: The General Assembly should closely examine statutory transfers from GRF into special state funds. Some recipient funds are used by multiple state agencies for various purposes; there is no clear policy justification for the existence of these separate funds. Other special state funds are used for specific purposes, but they should nonetheless be subject to the regular and more transparent appropriations process, rather than being protected by automatic transfers.

Fund sweeps: The General Assembly should also re-institute the practice of targeted "fund sweeps," which involve special transfers of surplus revenue from other state funds into GRF. The most recent use of fund sweeps was in FY 2010, when the legislature authorized $283 million in special transfers from 190 different funds.

Road Fund: Most revenue from the Road Fund — which includes motor vehicle and driver's license fees, transfers from the Motor Fuel Tax Fund, and federal grants — is used for the Department of Transportation. Prior to FY 2010, a substantial amount routinely went to the Secretary of State's Office and the Illinois State Police ($250 million in FY 2009). However, the State Finance Act was amended to prohibit these appropriations. If the General Assembly repealed that provision, some appropriations for the Secretary of State and State Police could again be covered by the Road Fund, which would free up GRF resources for other critical priorities.

The Cumulative Budget Deficit

The new fiscal year will begin with a $5 billion carryover deficit from FY 2012 and previous years. (Without the income tax increase enacted last year, the deficit would have been much higher — about $15 billion.) The $5 billion figure does not include other outstanding liabilities for state employee group insurance ($1.1 billion), the state share of the Medicaid backlog ($850 million), and business income tax refunds ($550 million). The Governor's proposed FY 2013 budget shows a small operating surplus of $162 million — $213 million if one uses the most recent revenue estimates from CGFA.[7] The cumulative deficit would still be about $4.8 billion (see Exhibit 11).

Last year, the Governor proposed "debt restructuring" bonds to cover the backlog of outstanding bills, but the idea gained little support in the legislature. Although this issue was discussed in the recent budget address, the Governor has not presented a specific plan for dealing with the cumulative deficit. The backlog of unpaid bills has had an especially damaging impact on human service providers. The combination of budget cuts and delayed payments to community-based non-profits is undermining the human services infrastructure in Illinois.

---

[7] The General Assembly's revenue estimate would not necessarily produce a larger fiscal year operating surplus. This would depend on total GF appropriations in the enacted budget.

The General Assembly should reconsider some form of debt restructuring. Without it, delayed payments to service providers will continue indefinitely. Borrowing to reduce the backlog of unpaid bills is not the same as borrowing to support ongoing operations. The current backlog represents money that the state *already* owes. Issuing debt restructuring bonds would allow service providers to be paid up-front and would compel the state to meet its obligations. Debt restructuring for a substantial portion of the backlog is not the easy way out. On the contrary, it would impose stronger fiscal discipline.

Exhibit 11: General Funds Deficit, FY 2012 and FY 2013 (in $millions)

	FY 2012 Estimated	FY 2013 Projected
Revenue		
State sources[a]	27,763	28,229
Transfers in[a]	1,824	1,826
Federal sources	3,805	3,935
Total revenue	**33,392**	**33,990**
Expenditures		
State agency appropriations	25,252	24,828
Estimated unspent appropriations	-904	-500
Estimated agency expenditures	24,348	24,328
Pension contributions	4,135	5,090
Pension obligation debt service	1,605	1,552
Capital projects debt service	551	519
Regular statutory transfers	2,461	2,142
Repayment of interfund borrowing	626	147
Total expenditures	**33,727**	**33,777**
Fiscal year operating surplus/deficit	**-335**	**213**
Carryover deficit from previous years	-4,679	-5,014
Cumulative deficit	**-5,014**	**-4,801**

[a] Estimates from Commission on Government Forecasting and Accountability.

Source: Governor's Office of Management and Budget (except where noted).

Medicaid Restructuring

In his budget address, the Governor announced the formation of a bipartisan Medicaid working group, consisting of Sen. Heather Steans (D-Chicago), Sen. Dale Righter (R-Mattoon), Rep. Sara Feigenholtz (D-Chicago), and Rep. Patti Bellock (R-Westmont), as well as DHFS director Julie Hamos. The working group is charged with developing a road map for "restructuring" Medicaid to reduce program costs by $2.7 billion. This would mean cutting projected FY 2013 liabilities for GRF and related funds by almost 25 percent. The Governor asserted that "we need to reconsider the groups who are eligible for Medicaid, the services we cover under the program, the utilization of these services, and the way and amount we pay for them." DHFS has outlined a comprehensive and detailed menu of policy options for the work group to consider.[8]

At this juncture, it is unclear whether $2.7 billion is an appropriate or feasible target for Medicaid restructuring, but an effort to reduce actual program costs is preferable to illusory budget cuts without corresponding policy changes. The fundamental policy dilemma is identifying a strategy for controlling program liabilities without undermining access to or quality of care for children, low-income parents, pregnant women, people with disabilities, and seniors. Any specific recommendations for restructuring medical assistance programs in Illinois should be based on careful analysis of eligibility groups, service utilization, and program costs.

The working group should also recognize the importance for Medicaid for children, including children with special health care needs. A substantial body of research has documented the effectiveness of Medicaid in improving access to primary and preventive care and improving health outcomes for children.[9] Over the past decade, the state has substantially expanded health insurance coverage for children through Medicaid and related programs. In 2010, less than 5 percent of Illinois children lacked health insurance coverage — one of the lowest uninsured rates in the nation. Moreover, following a federal consent decree in 2005, the state has improved Medicaid reimbursement rates for targeted primary care services in order to ensure that all eligible children have adequate access to primary and preventive care. Nonetheless, there are still serious problems with access to pediatric specialty care for children covered by Medicaid and CHIP.[10]

Pension Reform

The Governor has also convened a bipartisan pension working group, which includes Sen. Mike Noland (D-Elgin), Sen. Bill Brady (R-Bloomington), Rep. Elaine Nekritz (D-Des Plaines), and Rep. Darlene Senger (R-Naperville). The Governor emphasized that "everything is on the table" for the working group — historical funding practices, employer and employee contributions, the retirement age, and cost-of-living increases. He proposed a deadline of April 17 for the pension workgroup to submit a blueprint for reform.

Financial, legal, and political complexities make it very difficult to achieve consensus on pension reform.[11] The state must, however, find a responsible and equitable solution to the pension funding crisis — in both the short term and the long term. Absent policy changes, mandated contributions will increase by more than $400 million in both FY 2014 and FY 2015. Pension reform legislation recently considered by the General Assembly (Senate Bill 512) would not solve the problem of rising pension costs in the short term. According to CGFA, annual state contributions

---

[8] Illinois Department of Healthcare and Family Services, "Menu of Possible Options for Medicaid Liability and Spending Reductions" (February 22, 2012).

[9] Leighton Ku and Christine Ferguson, "Medicaid Works: A Review of How Public Insurance Protects the Health and Finances of Children and Other Vulnerable Populations" (First Focus, June 2011).

[10] John Bouman, "Study Highlights Importance of Improved Medicaid Program," *The Shriver Brief*, June 21, 2011.

[11] See, e.g., State of Illinois, "Report of the Pension Modernization Task Force (House Joint Resolution 65)" (General Assembly and Office of the Governor, November 2009).

would be higher in the first 7-10 years of implementation. In FY 2013, pension contributions under the proposed plan would be $476 million *above* current requirements.[12]

Conclusion

The Governor's FY 2013 budget recommendations reflect the ongoing fiscal crisis that the state still faces. Rising pension obligations, unfunded Medicaid liabilities, and the backlog of unpaid bills present an enormous set of challenges. Programs and services that impact the state's most vulnerable populations, including its children, continue to be caught in the "budget crossfire."[13] The Governor's budget would provide necessary additional funding for some important priorities for children — for example, early childhood education, bilingual education, and family income assistance. At the same time, the cumulative effects of the state fiscal crisis on human services have been devastating. If the proposed budget were enacted, GRF program cuts over four years would be more than 60 percent for mental health community service grants, more than 20 percent for children's mental health, 17 percent for prenatal case management, 22 percent for home visiting, 40 percent for delinquency prevention, and 64 percent for Teen REACH after-school services. Moreover, the erosion of access to child care services for low-income working families would continue.

Over the remaining months of the spring legislative session, the General Assembly will formulate, debate, and vote on a set of appropriations bills. In developing a budget for the coming fiscal year, they should take "budgeting for results" seriously and carefully consider the *consequences* of their policy choices. They should likewise take into account the consequences of spending cuts over the past three years, especially for human services programs. A responsible state budget should reflect a *balanced* approach to setting policy priorities and allocating limited resources. Principles of fiscal and social responsibility require *shared sacrifice* among state agencies and across functions of state government.

Finally, it is essential for policymakers to recognize that investing in opportunities for children, resources for vulnerable families, and supportive services for communities can yield long-term benefits for the entire state. We often hear that the state cannot afford these investments until it eliminates the backlog of unpaid bills, but this refrain poses a false dichotomy. Most of the programs in jeopardy involve relatively modest costs. If strategic policy decisions prevail over political expediency, Illinois can have a state budget that reflects both fiscal responsibility *and* social responsibility.

---

[12] Commission on Government Forecasting and Accountability, Pension Impact Note, 97th General Assembly, Senate Bill 512, House Amendment 2, November 8, 2011. Any pension reform proposal considered by the General Assembly should be subject to independent analysis of its short-term and long-term financial impact. See Civic Federation, "State of Illinois FY 2013 Budget Road Map" (January 2012), p. 43.

[13] Eugene Steuerle, "Children Caught in the Budget Crossfire," in *Today's Children, Tomorrow's America: Six Experts Face the Facts* (The Urban Institute, October 2011).

ABOUT THE FISCAL POLICY CENTER

The Fiscal Policy Center at Voices for Illinois Children provides timely, credible, and accessible information and analysis on fiscal issues that affect children, families, and communities in Illinois. The FPC is a member of the State Fiscal Analysis Initiative (SFAI), a network of non-profit organizations in more than 40 states. SFAI is coordinated by the Center on Budget and Policy Priorities, a Washington, D.C.-based research organization and strategic policy institute that works on a range of federal and state issues.

The Fiscal Policy Center is funded by the Annie E. Casey Foundation, the Center on Budget and Policy Priorities, the Chicago Community Trust, and the Ford Foundation . We thank them for their support but note that the findings and conclusions presented here are those of FPC alone and do not necessarily reflect the views of these funders.

For additional information, contact Larry Joseph, Director of the Fiscal Policy Center, at ljoseph@voices4kids.org or 312-516-5556.

VOICES
FOR ILLINOIS CHILDREN

208 S. LaSalle St., Suite 1490 • Chicago, IL 60604-1120
Phone: 312-456-0600 • Email: info@voices4kids.org • Web: www.voices4kids.org

BUILDING BETTER LIVES